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ESTIMATES OF FEDERAL TAX EXPENDITURES FOR FISCAL YEARS 1990-1994

PREPARED FOR THE

COMMITTEE ON WAYS AND MEANS

AND THE

COMMITTEE ON FINANCE

BY THE STAFF

OF THE

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

This report [1] on tax expenditures for fiscal years 1990–1994 is prepared for the House Committee on Ways and Means and the Senate Committee on Finance. The report also is submitted by the staff of the Joint Committee on Taxation to the House and Senate Committees on the Budget.

As in the case of earlier reports,[2] the estimates in this report were prepared with the cooperation of the staff of the Office of Tax Analysis in the Treasury Department. With the exception of the first two reports which were prepared at the request of the conferees on the Revenue Act of 1971, these reports have been prepared as the Joint Committee's report under the budget process.

The Administration published its estimates of tax expenditures for fiscal years 1988–1990 in Special Analysis G of the Budget for Fiscal Year 1990.[3] The tax expenditure items included in this pamphlet and in Special Analysis G overlap considerably, and the differences are discussed below in Part II under the heading "Comparisons with Special Analysis G".

The staff of the Joint Committee has made its estimates (as shown in Table 1) based on the provisions in tax law as enacted through December 31, 1988, including relevant provisions of the Technical and Miscellaneous Revenue Act of 1988. Expired or repealed provisions are not listed if their effects on revenue result only from taxpayer activity in years before 1989. Some of the provisions repealed in the Tax Reform Act of 1986 may continue to appear as tax expenditures because they are phased out over periods as long as five years. Extensions or modifications of expiring provisions are not included until they have been enacted into law.

Part I of this report contains a discussion of the concept of tax expenditures, and it is followed in Part II by a discussion of the measurement of tax expenditures. Estimates of tax expenditures for fiscal years 1990–1994 are presented in Table 1 in Part III. Table 2 shows the distribution of tax returns by income class, and Table 3 presents distributions of selected individual tax expenditure items by income class.

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[1] This report may be cited as follows: Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 1990–1994* (JCS–4–89), February 28, 1989.

[2] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures*, October 4, 1972, June 1, 1973, July 8, 1975, March 15, 1976, March 16, 1977, March 14, 1978, March 15, 1979, March 6, 1980, March 16, 1981, March 8, 1982, March 7, 1983, November 9, 1984, April 12, 1985, March 1, 1986, February 27, 1987, and March 8, 1988.

[3] Office of Management and Budget, "*Tax Expenditures*," Special Analysis G, *The Budget of the United States Government for Fiscal Year 1990*, pp. G1–59.

I. THE CONCEPT OF TAX EXPENDITURES

Overview

Tax expenditure estimates measure the decreases in individual and corporate income tax liabilities that result from provisions in income tax laws and regulations that provide economic incentives or tax relief to particular kinds of taxpayers. These tax provisions take the form of exclusions, credits, deductions, preferential tax rates, or deferrals of tax liability. (Tax disincentives or penalties are not shown as negative tax expenditures.)

The term tax expenditure is based on the assumption that the objectives of these tax provisions could be accomplished by direct expenditure programs. Tax expenditures, in this view, are analogous to those direct expenditures which have no program spending limits, and which are available as entitlements to individuals and corporations who meet the statutory and regulatory criteria established for the programs. Tax expenditure provisions, like all tax provisions but unlike direct spending programs, are administered by the Internal Revenue Service. Tax expenditures require no further action by the Federal Government; direct expenditure programs require at least approval of an application form. Like entitlement programs, tax expenditures usually do not have expiration dates.

Tax expenditure estimates have been prepared for use in public policy analysis to determine the relative merits of providing direct outlays or tax benefits to achieve specified public goals. To provide this capability, the Congressional Budget Act of 1974 requires that a report on tax expenditures be submitted to the House and Senate Budget Committees. These committees include tax expenditure estimates in their reports that accompany the annual budget resolutions.

In this report, the Joint Committee staff follows the definition of tax expenditures that appears in the Congressional Budget Act: ". . . those revenue losses attributable to provision of the Federal tax laws which allow a special exclusion, exemption or deduction from gross income or which provide a special credit, a preferential rate of tax or a deferral of tax liability." [4] The legislative history of this Act indicates that tax expenditures are to be defined with reference to a normal income tax structure as was the case in the first two tax expenditure pamphlets prepared by the Joint Committee staff.

The normal income tax structure of the individual income tax includes one personal exemption for each taxpayer and one for each dependent; the standard deduction,[5] which serves as a general min-

[4] Congressional Budget and Impoundment Control Act of 1974 (P.L. 93-344), sec. 3(a)(3).
[5] Beginning in 1987, the zero bracket amount was replaced by the standard deduction.

imum deduction for all taxpayers; the existing tax rate schedule; the limit on using passive losses to offset other income; and deductions for costs incurred in producing net income, e.g., investment expenses or the cost of the tools that a mechanic purchases for his use on the job.

The normal tax structure of the corporate income tax includes deductions for the costs, including depreciation, incurred in producing income. It does not include the graduated tax rate schedule on the grounds that it is intended to provide tax relief to small corporations.

The staff acknowledges that its concept of the normal tax structure may err on the side of being too narrow and its definition of tax expenditures may err on the side of being too broad. The staff's approach traditionally has been to list any item as a tax expenditure for which there is a reasonable basis for such classification and a revenue loss above a de minimis amount. In this context, a de minimis revenue amount means a revenue loss of less than $10 million in each of the five fiscal years 1990–1994. The staff emphasizes, however, that in the process of listing tax expenditure items, no judgment is made, nor any inference intended, above the desirability of any special provision as public policy.

As defined in the Congressional Budget Act, the concept of tax expenditure refers to the corporate and individual income taxes. Other parts of the Internal Revenue Code—excise taxes, employment taxes, estate and gift taxes—also have exceptions, exclusions, refunds and credits, but they are not included in this report because they are not parts of the income tax. Thus, the income tax credit for producing ethanol for use in blending gasohol is included, while the equivalent exemption for the excise tax on gasohol sales is not treated here as a tax expenditure.

Individual Income Tax

The staff does not include as tax expenditures either the standard deduction or the personal exemption for the taxpayer and dependents because Congress believes these amounts approximate the level of income below which it would be difficult for an individual or a family to obtain minimal amounts of food, clothing, and shelter. Thus, itemized deductions are classified as tax expenditures only to the extent they exceed the standard deduction.

Deductions for costs incurred in producing income are considered part of the normal tax structure and, therefore, are not listed as tax expenditures. These include deductions for job-related moving expenses and, subject to certain limitations, employee business expenses, investment expenses, and business-related travel expenses. In addition, deductible interest expenses, which include such items as interest paid or accrued on indebtedness incurred in connection with a trade or business, investment interest to the extent of investment income, or interest payable on any unpaid portion of tax due on an estate when an extension of time for payment is in effect, are not tax expenditure items. Tax expenditure items include mortgage interest on a principal or second residence, the deduction for personal interest and the permanent exemption from imputed interest rules.

The exclusion from income of a portion of capital gains for individuals and the alternative rate for corporations was repealed by the Tax Reform Act of 1986. Beginning in 1987, capital gains income of individual taxpayers is taxed as ordinary income. The exclusion of capital gains from income at death, the deferral of capital gains on home sales rollovers, and the exclusion of capital gains up to $125,000 on home sales for individuals age 55 or over were not changed by the Tax Reform Act of 1986.

The failure to include in gross income imputed income received by individuals from the services of their own durable assets is not treated as a tax expenditure. Such imputations are often considered as income under other concepts of income, such as, that used in measuring gross national product. Measurement of imputed income for inclusion for income tax purposes would present severe administrative problems, and its exclusion from taxable income is regarded as an administrative necessity rather than as a specific incentive to encourage certain kinds of consumption. The imputed income from an owner-occupied home is the most prominent of these omitted items; among the others are the income that could be imputed to household furniture and appliances, books, art collections, and automobiles. If all the imputed income items were included in adjusted gross income, however, it would be proper to include all interest deductions as part of the normal tax structure, since interest deductions would be allowable as a cost of producing imputed income.

Business Income Taxation

The most difficult issues in defining tax expenditures for business income of individuals and corporations relate to capital costs, which are costs not properly allocable to income earned in a single year. The staff assumes, for example, that the normal tax structure would permit straight-line cost recovery deductions on structures and equipment over the asset's estimated useful life, as used for the alternative minimum tax.

The measurement of income from capital under the normal tax structure does not take account of the effects of inflation on depreciation, capital gains, and interest payments. Thus, certain tax expenditure estimates may be larger or smaller than would be the case if the normal tax structure were indexed. For example, the definition of depreciation in the tax expenditure estimates does not take into account the effect of inflation in eroding the real value of depreciation deductions and therefore tends to overstate the tax expenditures. Fixed accelerated depreciation schedules do not always provide deductions whose real value corresponds to the amount originally paid for the asset. Because annual rates of inflation vary considerably, fixed accelerated depreciation schedules will overstate or understate in any given year the real value of depreciation of assets.

The foreign tax credit is not classified in this report as a tax expenditure because it is intended to prevent double taxation of income earned abroad by U.S. investors.

Comparisons with Special Analysis G

The Joint Committee and Treasury Department lists of tax expenditures differ for several reasons. First, the Joint Committee uses as its measure of tax expenditures the definition of tax expenditure in the Congressional Budget Act of 1974. The Treasury Department uses a reference law concept, which is based on the Internal Revenue Code, as amended by the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986, in determining which items to include for purposes of Special Analysis G. Second, the Joint Committee in 1985 expanded its list of tax expenditures to include several of the tax provisions recommended for repeal under the principles employed in developing both the President's and the Treasury Department's tax simplification and reform proposals.[6] Third, Special Analysis G covers the usual three-year period of a budget submission—the most recent fiscal year, the current fiscal year, and the fiscal year to which the budget proposals apply, i.e., fiscal years 1988–1990. The Joint Committee estimates apply to the next fiscal year and the succeeding four fiscal years, i.e., fiscal years 1990–1994. In addition, the Joint Committee estimates cover provisions in the Internal Revenue Code of 1986, as in effect on December 31, 1988, and may include in this year's report several expired or repealed provisions for which lengthy transition periods have been provided and which involve substantial amounts of revenue foregone.

Special Analysis G this year contains a new section that presents a review and revenue loss estimates of several estate and gift tax provisions which Treasury considers to be tax expenditures. The Joint Committee staff, as indicated above, usually has treated estate and gift tax provisions as being outside of the Internal Revenue Code and therefore has omitted them from the list of tax expenditures. However, because of the new Treasury section, the staff plans to examine whether adding estate and gift taxes to the tax expenditure list will provide useful information to the tax committees and Congress.

Tax expenditure items in the Joint Committee list which have not been included separately, or within another item, in the listing in Special Analysis G are shown below.

Energy

—Expensing tertiary injectants

Agriculture

—Deductibility of patronage dividends and certain other items of cooperatives
—Exclusion of cost-sharing payments
—Cash accounting for agriculture

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[6] The White House, *The President's Tax Proposals to the Congress for Fairness, Growth and Simplicity*, Washington, D.C., May 1985, and Office of the Secretary of the Treasury, *Tax Reform for Fairness, Simplification, and Economic Growth: The Treasury Department Report to the President*, vols. 1 and 2, Washington, D.C., Department of the Treasury, November 1984.

Insurance companies

—Deduction of unpaid property loss reserves of property and casualty companies
—Treatment of life insurance company reserves

Business and commerce

—Expensing magazine circulation expenditures
—Special rules for magazine, paperback book, and record returns
—Completed contract rules
—Cash accounting, other than agriculture
—Exception from net operating loss limitations for corporations in bankruptcy
—Like-kind exchanges

Employment

—Exclusion of miscellaneous fringe benefits
—Exclusion of employee awards

II. MEASUREMENT OF TAX EXPENDITURES

Estimates of tax expenditures as revenue losses are subject to important limitations. The difference between the estimates of tax liabilities under present law, which provides for a particular tax expenditure provision, and the higher level of tax liabilities under the assumption that the provision did not exist, is the amount of the tax expenditure. For this computation, as opposed to revenue estimates provided for legislative purposes, it is assumed that nothing else changes, i.e., these are static estimates that do not anticipate taxpayer behavioral responses to changes in tax law.

Each tax expenditure is measured in isolation. If two or more items were to be eliminated simultaneously, the result of the combination of changes might produce a lesser or greater revenue effect than the sum of the amounts shown for each item separately. This means that the addition of the amounts of various tax expenditure items is of quite limited usefulness, and this is why annual totals for all tax expenditures in Table 1 are shown only as an addendum to Table 1.

If a tax expenditure item were to be eliminated, it is possible that Congress would deal with the underlying reason for enacting the tax expenditure in another way, rather than simply terminating federal assistance of any kind. For example, the Tax Reform Act of 1986 repealed the itemized deduction for certain adoption expenses and in its place authorized a direct spending program for such expenses. To the extent that a replacement program would be enacted, the higher revenues received as a result of the elimination of a tax expenditure might not represent a net budget gain. The nature of any alternative program cannot be anticipated—it could involve direct expenditures, direct loans or loan guarantees, a different form of a tax expenditure, or a general reduction in tax rates. If any tax expenditures were repealed, adjustments might be made through fiscal or monetary policy to offset the effects of higher tax liabilities on the economy; the estimates of tax expenditures do not anticipate such policy responses.

Year-to-year differences in the estimates for each tax expenditure reflect changes in tax law, including phaseouts of tax expenditure provisions and changes which alter the definition of the normal tax structure, such as: the tax rate schedule; the personal exemption amount; and the standard deduction. Some of the estimates for this tax expenditure budget may differ from estimates made in previous years because of changes in law and economic conditions, the availability of better data, and improved estimating techniques. Similar differences also occur in the budget estimates for direct outlays.

An alternative way to measure tax expenditures is to express their values in terms of outlay equivalents, i.e., how large direct outlays would have to be for a program in order to place the tax-

payer in the same after-tax position he would be under a tax expenditure regime; the administration presents such estimates in Special Analysis G. Often the outlay equivalent is greater than the revenue loss, because in many cases outlays would have to be included in the taxable income of the beneficiaries of the program.

III. TAX EXPENDITURE ESTIMATES

To aid analysis of the economic benefits provided through the tax laws to various sectors of the economy, tax expenditures are grouped in Table 1 in the same functional categories as outlays in the Federal budget. Estimates are shown separately for individuals and corporations. Those tax expenditures that do not fit clearly into any of the budget functional categories have been placed in the most appropriate functional category.

Several of the tax expenditure items involve small revenue loss, and those estimates are indicated in Table 1 by footnote 1. For each of these items, the footnote means that the revenue loss is less than $50 million in the fiscal year.

Table 2 presents tax return information for each of nine income classes on the number of all returns filed, the number of all returns and taxable returns with itemized deductions, and the amount of tax liability.

Table 3 provides estimates by income class for some of the tax expenditures which affect individual taxpayers. Not all tax expenditures which affect individuals are shown in this table because of the difficulty in making reliable estimates of the income distribution of items which do not appear on tax returns under present law.

Tables 1, 2, and 3 assume the tax laws as enacted through December 31, 1988.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1990–1994

[Billions of dollars]

Function	Corporations					Individuals					Total 1990–94
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994	
National defense											
Exclusion of benefits and allowances to Armed Forces personnel						1.9	2.0	2.1	2.3	2.4	10.8
Exclusion of military disability pensions						0.1	0.1	0.1	0.1	0.1	0.6
International affairs											
Exclusion of income earned abroad by U.S. citizens						1.3	1.4	1.5	1.5	1.6	7.3
Exclusion of certain allowances for Federal employees abroad						0.2	0.2	0.2	0.2	0.2	1.0
Exclusion of income of foreign sales corporations (FSCs)	0.6	0.8	0.9	1.0	1.1						4.3
Deferral of income of controlled foreign corporations	0.1	0.1	0.1	0.1	0.1						0.5
Inventory property sales source rule exception	2.6	2.9	3.2	3.4	3.7						15.9
Interest allocation rules exception for certain nonfinancial institutions	0.1	0.1	0.1	0.1	0.1						0.4
General science, space, and technology											
Expensing of research and development expenditures	1.2	1.5	1.6	1.8	2.0						8.1
Credit for increasing research activities	0.8	0.2	(1)	(1)	(1)						1.0
Energy											
Expensing of exploration and development costs:											
Oil and gas	−0.3	−0.1	(1)	0.2	0.2	0.4	0.4	0.5	0.5	0.6	2.5
Other fuels	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Excess of percentage over cost depletion:											
Oil and gas	0.1	0.1	0.1	0.1	0.1	0.2	0.3	0.3	0.3	0.3	1.9
Other fuels	0.2	0.2	0.2	0.2	0.2	(1)	(1)	(1)	(1)	(1)	1.1

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1990–1994—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1990–94
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994	
Exception from passive loss limitation for working interests in oil and gas properties						0.2	0.3	0.3	0.3	0.3	1.4
Alternative fuel production credit	(1)	(1)	(1)	(1)	(1)						(1)
Alcohol fuel credit [3]	(1)	(1)	(1)	(1)		(1)	(1)	(1)	(1)		0.1
Exclusion of interest on State and local government industrial development bonds for energy production facilities	(2)	(2)	(2)	(2)	(2)	0.2	0.2	0.2	0.2	0.2	0.9
Expensing of tertiary injectants	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Business energy tax credits	(1)	(2)	(2)	(2)	(2)						(1)
Natural resources and environment											
Expensing of exploration and development costs, nonfuel minerals	(1)	(1)	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.3
Excess of percentage over cost depletion, nonfuel minerals	0.2	0.2	0.3	0.3	0.3	(1)	(1)	(1)	(1)	(1)	1.3
Investment credit and 7-year amortization for reforestation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.4
Expensing multiperiod timber-growing costs	0.3	0.3	0.4	0.4	0.4	(1)	(1)	(1)	(1)	(1)	1.9
Exclusion of interest on State and local government sewage, water, and hazardous waste facilities bonds	−0.3	−0.4	−0.4	−0.4	0.4	1.7	1.8	1.8	1.9	2.0	7.2
Investment tax credit and passive loss exception for rehabilitation of historic structures	(1)	(1)	(1)	(1)	(1)	0.1	0.1	0.1	0.1	0.1	0.6
Special rules for mining reclamation reserves	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Agriculture											
Expensing of certain multiperiod production costs	0.1	0.1	(1)	(1)	(1)	0.2	0.2	0.2	0.1	0.1	1.1
Deductibility of patronage dividends and certain other items of cooperatives	0.3	0.3	0.3	0.3	0.3	−0.1	−0.1	−0.1	−0.1	−0.1	1.3
Exclusion of cost-sharing payments						(1)	(1)	(1)	(1)	(1)	0.1

Exclusion of cancellation of indebtedness income of farmers	.....	.....	.....	.....	.....	(1)	(1)	(1)	(1)	(1)	0.1
Cash accounting for agriculture	0.1	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.2	0.1	1.8
Commerce and housing											
Financial institutions:											
Bad-debt reserves of financial institutions	0.2	0.1	0.1	0.2	0.2	.....	.....	.....	.....	.....	0.8
Merger rules for banks and thrift institutions [4]	2.5	2.5	2.3	2.4	2.1	.....	.....	.....	.....	.....	11.7
Exemption of credit union income	0.6	0.6	0.7	0.8	0.9	.....	.....	.....	.....	.....	3.6
Insurance companies:											
Exclusion of investment income on life insurance and annuity contracts	0.4	0.4	0.4	0.5	0.5	5.8	6.4	7.1	7.8	8.7	38.1
Exclusion of investment income from structured settlement amounts	(1)	(1)	(1)	(1)	(1)	.....	.....	.....	.....	.....	0.1
Small life insurance company taxable income adjustment	0.1	0.1	0.1	0.1	0.1	.....	.....	.....	.....	.....	0.5
Treatment of life insurance company reserves	0.6	0.7	0.7	0.7	0.8	.....	.....	.....	.....	.....	3.5
Deduction of unpaid loss reserves for property and casualty insurance companies	2.0	1.9	1.6	1.4	1.3	.....	.....	.....	.....	.....	8.2
Special alternative tax on small property and casualty insurance companies	(1)	(1)	(1)	(1)	(1)	.....	.....	.....	.....	.....	0.1
Tax exemption for certain insurance companies	(1)	(1)	(1)	(1)	(1)	.....	.....	.....	.....	.....	0.1
Special deduction for Blue Cross and Blue Shield companies	0.1	0.1	(1)	(1)	(1)	.....	.....	.....	.....	.....	0.2
Housing:											
Deductibility of mortgage interest on owner-occupied residences	.....	.....	.....	.....	.....	25.4	26.0	26.2	27.4	28.1	133.5
Deductibility of property tax on owner-occupied homes	.....	.....	.....	.....	.....	8.1	8.4	8.7	9.0	9.4	43.5
Deferral of capital gains on sales of principal residences	.....	.....	.....	.....	.....	10.3	10.9	11.5	12.1	12.7	57.4
Exclusion of capital gains on sales of principal residences for persons age 55 and over	.....	.....	.....	.....	.....	3.4	3.6	3.8	4.0	4.2	19.1
Exclusion of interest on State and local government bonds for owner-occupied housing	0.3	0.3	0.3	0.3	0.3	1.4	1.4	1.3	1.2	1.1	7.8
Depreciation of rental housing in excess of alternative depreciation system	0.2	0.2	0.2	0.3	0.3	0.4	0.5	0.5	0.5	0.6	3.6
Credit and exception from passive loss rules for low-income housing	0.1	0.1	0.1	0.1	0.1	0.5	0.6	0.6	0.6	0.6	3.3

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1990–1994—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1990–94
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994	
Exclusion of interest on State and local government bonds for rental housing	0.2	0.2	0.2	0.2	0.2	0.6	0.6	0.6	0.6	0.6	4.2
Other business and commerce:											
Depreciation on buildings other than rental housing in excess of alternative depreciation system	0.5	0.5	0.5	0.5	0.5	0.2	0.2	0.2	0.2	0.2	3.5
Depreciation on equipment in excess of alternative depreciation system	10.9	12.3	14.1	15.9	17.7	3.7	4.0	4.2	4.6	5.1	92.5
Investment credit other than ESOPs, rehabilitation of structures, reforestation, and energy property	3.4	1.9	1.2	0.4	0.2	0.4	0.2	0.1	(1)	(1)	7.8
Expensing up to $10,000 depreciable business property	0.6	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	1.7
Exclusion of capital gains at death:											
Capital gains at death						5.4	5.5	5.6	5.8	6.0	28.3
Carryover basis on gifts						0.3	0.4	0.4	0.5	0.6	2.2
Amortization of business startup costs	(1)	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.0
Reduced rates on first $75,000 of corporate taxable income	5.2	5.5	5.7	6.0	6.2						28.6
Deduction of personal interest						1.9	0.9				2.8
Permanent exemption from imputed interest rules	(1)	(1)	(1)	(1)	(1)	0.1	0.2	0.2	0.2	0.2	1 0
Expensing of magazine circulation expenditures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Special rules for magazine, paperback, and record returns	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Deferral of gain on non-dealer installment sales	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.8
Completed contract rules	−1.1	−0.3	0.3	0.5	0.5	−0.1	(2)	(1)	(1)	(1)	−0.1
Cash accounting, other than agriculture	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.2
Exclusion of interest on State and local government small-issue bonds	−0.1	−0.1	−0.1	−0.1	−0.1	2.3	2.2	2.2	2.2	2.2	10.3

Exception from passive loss rules for $25,000 of rental losses						3.5	3.8	3.8	3.8	3.8	18.7
Deferral of gain on like-kind exchanges	0.3	0.3	0.3	0.3	0.3	0.2	0.2	0.2	0.2	0.2	2.5
Exception from net operating loss limitations for corporations in bankruptcy proceedings	0.2	0.2	0.2	0.2	0.2						1.0
Gain from sale or exchange to effectuate policies of the FCC	0.1	0.1	0.1	0.1	0.1	(1)	(1)	(1)	(1)	(1)	0.5
Treatment of Alaska Native Corporations	(1)	(1)									(1)
Exemption of RIC expenses from miscellaneous deduction floor						0.3	0.4	0.5	0.6	0.7	2.4
Transportation											
Deferral of tax on capital construction funds of shipping companies	0.1	0.1	0.1	0.1	0.1						0.5
Exclusion of interest on State and local government bonds for mass transit commuting vehicles	(2)	(2)	(2)	(2)	(2)	(1)	(1)	(1)	(1)	(1)	0.1
Exclusion of interest on State and local government bonds for high-speed inter-urban rail facilities	(2)	(2)	(2)	(2)	(2)	(1)	(1)	0.1	0.1	0.1	0.2
Community and regional development											
Investment credit and passive loss exception for rehabilitation of structures, other than historic structures	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.3
Exclusion of interest on State and local government bonds for private airports and docks	−0.1	−0.1	−0.1	−0.1	−0.2	0.7	0.7	0.8	0.8	0.9	3.3
Education, training, employment, and social services											
Education and training:											
Exclusion of scholarship and fellowship income						0.5	0.5	0.6	0.6	0.7	2.9
Parental personal exemption for students age 19 to 23						0.3	0.3	0.3	0.4	0.4	1.7
Exclusion of interest on State and local government student loan bonds	(1)	(1)	(1)	(1)	(1)	0.3	0.3	0.4	0.4	0.4	1.8
Exclusion of interest on State and local government bonds for private educational facilities	(1)	(1)	(1)	(1)	(1)	0.3	0.3	0.3	0.3	0.3	1.6
Deductibility of charitable contributions for education	0.5	0.5	0.6	0.6	0.6	1.3	1.4	1.5	1.5	1.6	10.1
Educational savings bonds						(1)	0.1	0.2	0.2	0.3	0.8
Employment:											
Targeted jobs credit	0.3	0.3	0.1	0.1	(1)	0.1	(1)	(1)	(1)		0.9

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1990–1994—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1990–94
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994	
Exclusion of employee meals and lodging (other than military)						0.8	0.8	0.8	0.9	0.9	4.1
Employee stock ownership plans (ESOPs)	0.3	0.3	0.4	0.4	0.4	(1)	(1)	(1)	(1)	(1)	1.7
Exclusion for benefits provided under cafeteria plans						2.0	2.8	3.5	4.1	4.7	17.1
Exclusion of rental allowances for minister's home						0.2	0.2	0.2	0.2	0.2	0.9
Exclusion of miscellaneous fringe benefits						3.9	4.1	4.4	4.8	5.1	22.3
Exclusion of employee awards						0.1	0.1	0.1	0.1	0.1	0.5
Exclusion of income earned by benefit organizations:											
Supplemental unemployment benefits trusts						(1)	(1)	(1)	(1)	(1)	0.1
Voluntary employees' beneficiary associations						0.5	0.5	0.5	0.6	0.6	2.7
Social services:											
Deductibility of charitable contributions, other than for education and health	0.5	0.5	0.6	0.6	0.7	10.0	10.6	11.1	11.7	12.3	58.7
Credit for child and dependent care expenses						3.9	4.1	4.2	4.4	4.6	21.2
Exclusion for employer-provided child care						0.3	0.5	0.7	0.8	0.9	3.2
Exclusion for certain foster care payments						(1)	(1)	(1)	(1)	(1)	0.1
Expensing costs of removing architectural barriers	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0.1
Health											
Exclusion of contributions by employers and self-employed for medical insurance premiums and medical care						32.6	36.7	40.1	45.3	50.8	20.55
Deductibility of medical expenses						2.8	2.9	3.1	3.2	3.3	15.3

Exclusion of interest on State and local government bonds for private hospital facilities	(1)	0.1	0.1	0.1	0.1	2.3	2.5	2.8	3.1	3.4	14.5
Deductibility of charitable contributions for health	0.2	0.2	0.2	0.2	0.2	1.3	1.3	1.4	1.5	1.6	8.1
Tax credit for orphan drug research	(1)	(1)	(1)	(1)	(1)	.....	.....	.....	.....	.....	0.1
Medicare											
Exclusion of untaxed medicare benefits:											
Hospital insurance	.....	.....	.....	.....	.....	5.8	6.9	7.8	8.9	9.9	39.3
Supplemental medical insurance	.....	.....	.....	.....	.....	3.2	3.9	4.6	5.5	6.5	23.6
Income security											
Exclusion of untaxed railroad retirement system benefits	.....	.....	.....	.....	.....	0.4	0.4	0.4	0.5	0.5	2.1
Exclusion of workers' compensation benefits	.....	.....	.....	.....	.....	2.2	2.3	2.4	2.5	2.6	12.0
Exclusion of special benefits for disabled coal miners	.....	.....	.....	.....	.....	0.1	0.1	0.1	0.1	0.1	0.6
Exclusion of cash public assistance benefits	.....	.....	.....	.....	.....	0.3	0.3	0.3	0.4	0.4	1.7
Net exclusion of pension contributions and earnings	.....	.....	.....	.....	.....	48.5	51.3	54.4	57.6	61.1	272.9
Individual retirement plans	.....	.....	.....	.....	.....	9.1	9.6	10.3	11.2	12.2	52.5
Keogh plans	.....	.....	.....	.....	.....	2.2	2.3	2.3	2.3	2.4	11.5
Exclusion of other employee benefits:											
Premiums on group term life insurance	.....	.....	.....	.....	.....	1.8	1.9	2.0	2.1	2.2	9.8
Premiums on accident and disability insurance	.....	.....	.....	.....	.....	0.1	0.1	0.1	0.1	0.1	0.5
Exclusion for employer-provided death benefits	.....	.....	.....	.....	.....	(1)	(1)	(1)	(1)	(1)	0.1
Additional standard deduction for the blind and the elderly	.....	.....	.....	.....	.....	1.5	1.7	1.9	2.1	2.4	9.6
Tax credit for the elderly and disabled	.....	.....	.....	.....	.....	0.1	0.1	0.1	0.1	0.1	0.5
Deductibility of casualty and theft losses	.....	.....	.....	.....	.....	0.2	0.2	0.1	0.1	0.1	0.7
Earned income credit [8]	.....	.....	.....	.....	.....	1.1	1.2	1.2	1.3	1.4	6.2
Social security											
Exclusion of untaxed social security benefits	.....	.....	.....	.....	.....	21.0	23.0	25.2	27.6	30.2	127.2
Veterans' benefits and services											
Exclusion of veterans' disability compensation	.....	.....	.....	.....	.....	1.3	1.4	1.4	1.5	1.6	7.2
Exclusion of veterans' pensions	.....	.....	.....	.....	.....	0.1	0.1	0.1	0.1	0.1	0.7
Exclusion of GI bill benefits	.....	.....	.....	.....	.....	0.1	0.1	0.1	0.1	0.1	0.3
Exclusion of interest on State and local government veterans' housing bonds	0.1	(1)	(1)	(1)	(1)	0.2	0.2	0.2	0.2	0.2	1.2

Footnotes at end of table.

Table 1.—Tax Expenditure Estimates By Budget Function, Fiscal Years 1990–1994—Continued

[Billions of dollars]

Function	Corporations					Individuals					Total 1990–94
	1990	1991	1992	1993	1994	1990	1991	1992	1993	1994	
General purpose fiscal assistance											
Exclusion of interest on public purpose State and local government debt	1.4	1.3	1.3	1.3	1.3	8.8	9.9	10.8	11.7	12.9	60.7
Deduction of nonbusiness State and local government income and personal property taxes	.....	.....	.....	.....	.....	19.0	20.4	21.8	23.3	24.9	109.4
Exclusion and tax credit for corporations with possessions source income	1.9	2.1	2.3	2.5	2.7	.....	.....	.....	.....	.....	11.5
Interest											
Deferral of interest on savings bonds	.....	.....	.....	.....	.....	0.9	0.9	1.0	1.0	1.0	4.8

Footnotes to table 1:

[1] Positive tax expenditure of less than $50 million.

[2] Negative tax expenditure of less than $50 million.

[3] In addition, the 6-cents-per-gallon exemption from excise tax for alcohol fuels results in a reduction in excise tax receipts, net of income tax effect, of $0.4 billion for 1990 through 1992, $0.3 billion in 1993, and $0.1 billion in 1994.

[4] This estimate does not reflect possible changes in program activity under the new plan proposed by the Administration.

[5] The figures in the table show the effect of the earned income credit on receipts. The increase in outlays is: $4.4 billion in 1990, $4.8 billion in 1991, $5.2 billion in 1992, $5.5 billion in 1993, and $6.0 billion in 1994.

ADDENDUM TO TABLE 1.—SUM OF TAX EXPENDITURE ITEMS BY TYPE OF TAXPAYER, FISCAL YEARS 1990–1994

[Billions of dollars]

Fiscal year	Corporations	Individuals	Total
1990	38.7	273.4	312.1
1991	39.6	292.9	332.5
1992	41.8	311.2	353.0
1993	44.5	334.5	379.0
1994	46.8	359.4	406.2

NOTE.—These totals represent the mathematical sum of the estimated fiscal year effect of each of the tax expenditure items included in Table 1. The limitations on the use of the totals is explained in the text.

Table 2.—Distribution by Income Class of All Returns. Taxable Returns, Itemized Returns, and Tax Liability, at 1990 Rates and 1990 Law and 1990 Income Levels [1]

[Money amounts in millions of dollars, returns in thousands]

Income class (thousands) [2]	All returns [3]	Taxable returns	Itemized returns		Tax liability
			Total	Taxable	
Below $10	27,312	4,150	484	166	−57
$10 to $20	28,311	17,756	2,218	1,402	15,264
$20 to $30	22,275	19,998	4,251	3,807	35,747
$30 to $40	16,535	16,022	5,852	5,608	45,731
$40 to $50	9,123	8,988	4,451	4,310	36,960
$50 to $75	11,428	11,347	7,913	7,807	86,470
$75 to $100	3,034	3,027	2,541	2,550	38,903
$100 to $200	2,873	2,859	2,620	2,609	75,915
$200 and over	986	977	913	893	118,966
Total	**121,877**	**85,124**	**31,242**	**29,152**	**453,899**

[1] Tax law as in effect on January 1, 1990, is applied to the 1990 level and sources of income and their distribution among taxpayers. Excludes individuals who are dependents of other taxpayers.

[2] The income concept used to place tax returns into classes is adjusted gross income (AGI) plus (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) inside buildup on life insurance, (4) workers compensation, (5) nontaxable social security benefits, (6) deductible contributions to individual retirement accounts, (7) the minimum tax preferences, and (8) net losses, in excess of minimum tax preferences, from passive business activities.

[3] Includes filing and nonfiling units. Filing units includes all taxable and nontaxable returns. Nonfiling units include individuals with income that is exempt from Federal income taxation (*e.g.*, transfer payments, interest from tax-exempt bonds, etc.).

NOTE.—Detail may not add to total due to rounding.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1990 Rates and 1990 Income Levels [1]

[Money amounts in millions of dollars, returns in thousands]

Income class (thousands) [2]	Medical deduction		Real estate tax deduction	
	Returns	Amount	Returns	Amount
Below $10	77	14	68	3
$10 to $20	803	229	1,055	87
$20 to $30	1,271	354	3,132	358
$30 to $40	1,738	710	4,935	670
$40 to $50	889	328	4,068	645
$50 to $75	845	474	7,452	2,264
$75 to $100	197	243	2,416	1,210
$100 to $200	119	373	2,463	1,884
$200 and over	20	149	817	1,208
Total	**5,959**	**2,873**	**26,405**	**8,330**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1990 Rates and 1990 Income Levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income class (thousands) [2]	State and local income tax deduction		Charitable contributions deduction	
	Returns	Amount	Returns	Amount
Below $10	76	3	51	1
$10 to $20	1,129	92	1,104	62
$20 to $30	3,233	434	3,464	307
$30 to $40	4,842	1,017	5,275	826
$40 to $50	3,856	995	4,235	705
$50 to $75	6,812	3,675	7,741	2,041
$75 to $100	2,208	2,150	2,494	1,099
$100 to $200	2,253	4,743	2,558	2,408
$200 and over	741	6,703	886	5,627
Total	**25,149**	**19,812**	**27,809**	**13,077**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1990 Rates and 1990 Income Levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income class (thousands) [2]	Child care credit		Earned income credit [3]	
	Returns	Amount	Returns	Amount
Below $10	47	57	2,119	1,466
$10 to $20	1,411	577	6,029	3,804
$20 to $30	2,086	1,012	2,117	593
$30 to $40	1,796	848	144	58
$40 to $50	1,204	548	18	8
$50 to $75	1,533	652	14	7
$75 to $100	406	184	0	0
$100 to $200	239	106	0	0
$200 and over	43	30	0	0
Total	**8,765**	**4,014**	**10,441**	**5,937**

Footnotes at end of table.

Table 3.—Distribution by Income Class of Selected Individual Tax Expenditure Items, at 1990 Rates and 1990 Income Levels [1]—Continued

[Money amounts in millions of dollars, returns in thousands]

Income class (thousands) [2]	Untaxed Social Security benefits		Additional standard deduction for the elderly and blind	
	Returns	Amount	Returns	Amount
Below $5	([4])	([5])	0	0
$5 to $10	3,509	781	10	0
$10 to $15	3,439	2,108	669	83
$15 to $20	3,091	2,738	1,143	169
$20 to $30	5,028	5,971	2,919	506
$30 to $50	5,538	6,753	2,873	574
$50 to $75	1,798	1,619	739	201
$75 to $200	1,023	1,131	225	67
$200 and over	168	287	24	6
Total	**23,594**	**21,389**	**8,603**	**1,606**

Footnotes to table 3:

[1] Excludes individuals who are dependents of other taxpayers.

[2] The income concept used to place tax returns into classes is adjusted gross income (AGI) plus (1) tax-exempt interest, (2) employer contributions for health plans and life insurance, (3) inside buildup on life insurance, (4) workers' compensation, (5) nontaxable social security benefits, (6) deductible contributions to individual retirement accounts, (7) the minimum tax preferences, and (8) net losses, in excess of minimum tax preferences, from passive business activities.

[3] Includes the refundable portion of the earned income credit.

[4] Less than 500.

[5] Less than $500,000.

NOTE.—Detail may not add to total due to rounding.